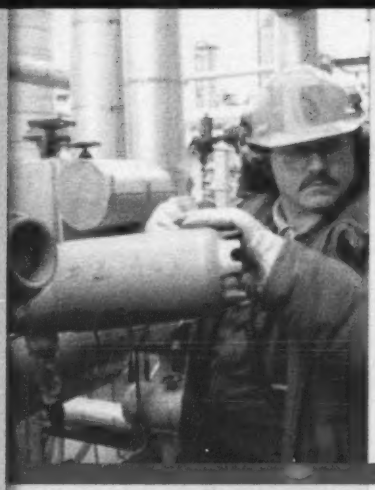

2008 The Economic Review

Newfoundland Labrador

The Economic Review is published annually by the Government of Newfoundland and Labrador under the authority of: The Honourable Jerome P. Kennedy, Q.C., Minister of Finance and President of Treasury Board. All data is current as of December 8, 2008.

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www.economics.gov.nl.ca/review2008

ISSN 1208-9982

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Global Economic Environment

World

The world economy entered 2008 with significant momentum; however, global economic conditions, particularly those of advanced economies, deteriorated significantly in the latter part of this year. The United States, many European countries, and Japan recorded negative Gross Domestic Product (GDP) growth in the latest quarter and most major economies appear to be in an economic downturn. The latest International Monetary Fund (IMF) forecast for 2009 world economic growth has been revised down to 2.2% from 3.8% (April 2008). The IMF projects economic recovery to commence late in 2009.

The current economic instability began in the summer of 2007 with the emergence of the sub-prime mortgage crisis in the U.S. housing sector. Over the past summer, problems with sub-prime mortgages spread to financial markets leading to sharp declines in stock markets and commodity prices. The resulting credit tightening and decline in consumer confidence has now spilled over into the rest of the economy and is negatively impacting all of the major industrialized countries. Most of the major economies, including the U.S., Europe and Japan are either now in, or headed for, a recession—something the world has not seen

World Real GDP Growth (%)

	2007	2008f	2009f
World	5.0	3.7	2.2
Canada	2.7	0.7	-1.0
United States	2.0	1.2	-1.8
Euro Area	2.6	1.2	-0.5
United Kingdom	3.0	0.8	-1.3
Japan	2.1	0.5	-0.2
China	11.9	9.7	8.5
India	9.3	7.8	6.3

f: forecast
Source: Various

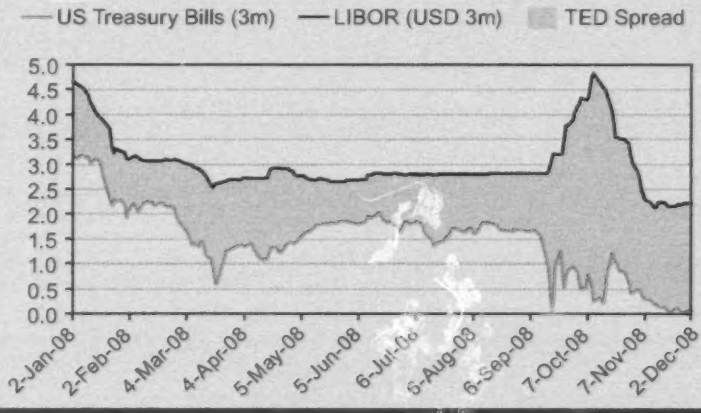
since the mid-1970s. The developing Asian countries, particularly China and India, are experiencing a significant slowing in their rates of growth. For the world as a whole, real GDP growth is expected to slow from 5.0% in 2007 to 3.7% in 2008 and just 2.2% in 2009.

United States

The current downturn began in the U.S., the result of problems with sub-prime mortgages and the bursting of a housing market bubble. Bad mortgages led to problems in the financial sector and a sharp decline in stock prices. This, combined with record high oil prices earlier in the year, damaged U.S. consumer confidence and severely restricted access to credit. As a result, consumer spending—particularly spending on durables such as automobiles—has declined. Weak consumer spending and housing investment dragged down U.S. GDP growth (0.9%) in the first quarter before it got a temporary boost (2.8%) from tax cuts and strong exports in the second quarter. However, in the third quarter, increases in government spending and gains in exports could not offset a sharp decline in durable goods spending and, as a result, GDP declined by 0.5%.

TED Spread

The "TED Spread" is a measure of credit risk for inter-bank lending and is an indicator of credit market tightening. It is the difference between the risk-free three-month U.S. treasury bill rate and the three-month London Inter-Bank Offer Rate (LIBOR). The LIBOR is set every morning by the British Bankers' Association, an unregulated group representing U.K. banks. It is a barometer of the freeze in credit markets because it reflects financial institutions' willingness to lend to one another. Traditionally the TED spread has been quite small, generally ranging between 0.3% and 0.5%. It was 1.4% on September 12, just before Lehman Brothers Holdings Inc. filed for bankruptcy. The LIBOR and the TED spread shot up to near 5% in early October, but have dropped in recent weeks as the credit squeeze began to loosen. The TED spread currently stands at 2.2%—well above historical levels but much lower than at the peak of the credit crisis.



Source: U.S. Treasury Department; British Bankers' Association; Department of Finance

U.S. labour markets have been contracting since the start of the year. Employment declined for 11 straight months and the unemployment rate increased from 4.9% in January to 6.7% in November. The size of the employment losses have increased in the last few months and a lot of uncertainty still exists around when the current recession will end.

Inflation concerns kept the Federal Reserve from cutting interest rates for part of the year, but with the recent drop in commodity prices and a clearer indication of the severity of the economic

downturn, the Federal Reserve cut interest rates in attempts to stimulate the economy. The overnight target for the federal funds rate was cut from 4.25% in January to just 1% in October 2008.

The U.S. government responded to the economic and financial crisis by providing massive amounts of capital to the financial sector and injecting large sums of money into credit markets to try and encourage lending. In recent weeks, problems in credit markets appear to be easing, but stock markets continue to be in distress. In addition, with U.S. car sales down more than 30% in October and November, problems have now emerged in the North American auto sector. Several large players are facing financial challenges and are appealing for government aid.

The outlook for the U.S. economy in the near term is bleak, with a lot of uncertainty regarding the extent of the recession. Most forecasters now expect the recession to bottom out in the first half of next year and a recovery to begin by late 2009. Real GDP is expected to grow by 1.2% in 2008, held up by positive growth in the first half, while employment is expected to decline by 0.2% and the unemployment rate is expected to be close to 7% by the end of the year. The outlook for 2009 is even weaker with GDP declining by 1.8%, employment declining by nearly 2% and the unemployment rate rising above 8%.

Canada

The global economic and financial crisis is also impacting the Canadian economy. Exports, particularly to the U.S., have been under pressure for several quarters and consumer confidence is waning. In the first three quarters of 2008, declining exports and residential investment were offset by growth in government and consumer spending, resulting in modest growth in GDP. Real GDP declined by 0.6% at annualized rates in the first quarter, and grew by 0.6% and 1.3% in the second and third quarters, respectively. However, negative growth is expected in the fourth quarter.

The Canadian labour market has started to show some weakening. While employment grew in the first 11 months of the year (up 1.6% January to November) and the unemployment rate remained near 6%, employment in November (on a seasonally adjusted basis) recorded a significant decline. The drop in stock markets and commodity prices and emerging problems in the auto sector have raised fears that labour markets will continue to weaken as the economic slowdown deepens.

Similar to the U.S., the Canadian government and the Bank of Canada have taken measures to loosen credit and stimulate the economy, including injecting money into financial markets and cutting interest rates. The Bank's target for the overnight rate has been reduced from 4.25% at the beginning of the year to 1.5% in December. On a positive note, while Canadian banks have benefitted from regulatory changes, they have not required direct financial bailouts from government like their counterparts in other G-7 countries. Also, the government of Canada has been running annual surpluses for over a decade and is in a much better position to provide fiscal stimulus to the economy in the coming months.

During the first seven months of 2008, the Canadian dollar averaged a relatively robust 99.2 cents US. However, since August the value of the Canadian dollar has depreciated rapidly in conjunction with the escalation of the financial market crisis and decreases in commodity prices. In early December 2008, the dollar traded near 80 cents US.

The worldwide economic slowdown, and in particular the deep recession in the U.S., is expected to result in a more modest recession in Canada. GDP is expected to decline in the fourth quarter of 2008 and the first half of 2009, before rebounding in the second half of next year. Low interest rates, a lower dollar and a rebounding U.S. economy are expected to revive economic growth. Real GDP is expected to expand by 0.7% in 2008 and decline by 1.0% in 2009. Employment is expected to grow by 1.5% in 2008 and decline by 0.3% in 2009 while the unemployment rate is expected to gradually increase to above 7% by the end of next year.

Provincial Economic Overview

Real GDP is expected to grow by 2.2% in 2008. Economic growth will stem mainly from gains in domestic demand (investment, and government and consumer spending). This forecast has been revised upward from the -2.0% projected in April 2008 because of higher than expected oil production, retail sales and housing starts.

Real exports are expected to remain on par with 2007 as increased mineral exports offset a decline in oil exports. Mineral production has been boosted by increased production of iron ore from the Iron Ore Company of Canada (IOC) and higher production of nickel from Voisey's Bay. Oil production, while higher than expected earlier in the year, is down about 7.1% compared to 2007.

Investment is forecast to increase by 15.0% in 2008 to $4.6 billion, due primarily to higher expenditures by the oil and gas industry, increased spending by the provincial government and gains in residential investment. Increased capital spending by the oil and gas industry stems from the development of the White Rose expansion field, North Amethyst. Higher provincial government investment is related to its capital infrastructure program. Residential investment benefitted from significant gains in both new construction and renovation spending. Housing starts for the first nine months of 2008 were up 25.4% compared to the same period in 2007.

Consumer spending continued to post strong growth in 2008. Retail sales totalled $5.2 billion in the first nine months of this year, an increase of 8.5% compared to the same period in 2007. On an annual basis, retail sales are forecast to rise by 8.1% in 2008. Car sales have been an important contributor to retail sales growth this year—the number of new cars sold in the province was up 13.7% to the end of September. High levels of housing starts also led to higher sales of furniture, electronics and building supplies. Consumption growth has been fuelled by three

Economic Indicators

	2007e	2008f	2009f	2010f	2011f
GDP at Market Prices ($M)	28,542	32,856	26,301	28,907	29,134
% Change	18.7	15.1	-19.9	9.9	0.8
% Change, real	9.1	2.2	-6.4	-0.1	-0.2
% Change, real adjusted*	2.3	5.0	-0.2	2.6	2.2
Personal Income ($M)	14,733	15,502	16,134	16,923	17,687
% Change	5.9	5.2	4.1	4.9	4.5
% Change, real	4.4	2.4	3.2	2.8	2.6
Personal Disposable Income ($M)	11,662	12,342	12,865	13,491	14,106
% Change	6.2	5.8	4.2	4.9	4.6
% Change, real	4.7	3.0	3.3	2.7	2.6
Retail Sales ($M)	6,567	7,100	7,363	7,648	7,940
% Change	9.0	8.1	3.7	3.9	3.8
% Change, real	8.0	6.0	4.0	2.4	2.7
Consumer Price Index (2002=100)	111.1	114.2	115.2	117.6	119.8
% Change	1.5	2.8	0.9	2.1	1.9
Capital Investment ($M)	4,040	4,648	5,114	5,159	4,700
% Change	-7.3	15.0	10.0	0.9	-8.9
% Change, real	-9.7	12.1	3.1	-0.3	-9.1
Housing Starts (Units)	2,649	3,111	2,715	2,649	2,587
% Change	18.6	17.4	-12.7	-2.4	-2.3
Employment (000s)	217.1	220.5	221.6	225.2	228.1
% Change	0.6	1.6	0.5	1.6	1.3
Labour Force (000s)	251.2	253.7	254.3	257.1	259.2
% Change	-0.8	1.0	0.3	1.1	0.8
Unemployment Rate (%)	13.6	13.1	12.9	12.4	12.0
Population (000s)	506.5	507.9	510.3	511.9	512.9
% Change	-0.8	0.3	0.5	0.3	0.2

* Adjusted GDP excludes production related income that will be earned by the non-resident owners of Newfoundland mega-projects (oil projects and Voisey's Bay) to better reflect growth in economic activity that generates income for residents.

Note: The stated estimates of GDP, personal income and personal disposable income do not include the provincial government's special payments to public sector plans in 2006 and 2007.

e: estimate; f: forecast, Department of Finance, December 2008

Source: Statistics Canada; Department of Finance

consecutive years of strong gains in disposable income, increased employment and solid consumer confidence.

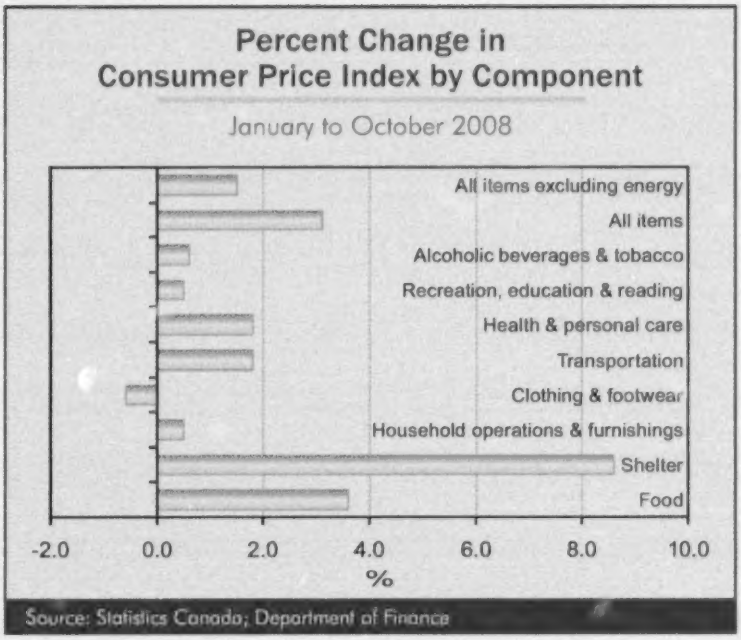
Labour Markets

Employment is expected to increase by 1.6% in 2008 to 220,500, primarily due to job gains in construction and public administration. Growth in employment is accompanied by gains in the labour force as increasing employment opportunities entice more people to look for work. The labour force is expected to expand by 1.0% this year and the unemployment rate is expected to average 13.1%, a 0.5 percentage point drop compared to 2007. This will be the lowest unemployment rate for the province since the early 1970s. Employment for the first 11 months of 2008 increased by 1.7% compared to the same period in 2007.

Wages continued to increase at a solid pace this year. Average weekly earnings (including overtime) increased by 3.9% in the first nine months of 2008. Labour income totalled just over $6.9 billion in the first nine months of this year, 6.8% higher than the same period of 2007. The increase in labour income reflects both higher weekly earnings and employment. After adjusting for inflation, labour income grew by 3.8%. Total personal income is forecast to grow by 5.2% this year (2.4% in real terms).

Prices

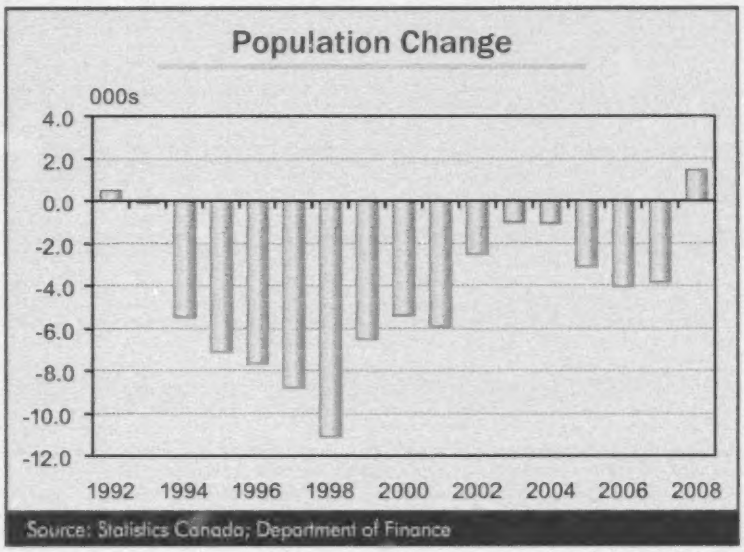
On a year-over-year basis, the Consumer Price Index (CPI) was 3.1% higher in the first 10 months of 2008. The increase in the CPI so far this year was caused primarily by a major increase in the price of energy, as evidenced by the large hike in the CPI for shelter (impacted by home heating fuel costs). Higher food prices also boosted inflation this year.



Population

Newfoundland and Labrador's population stood at 507,895 as of July 1, 2008, an increase of 0.3% compared to July 1, 2007. This year marks the first time in 16 years that the province recorded an increase in population.

Population growth was the result of positive net-migration of about 1,700 which offset a natural decline in population (more deaths than births) of almost 280. This year marked the first significant net in-migration to the province in 25 years (there was a very small net gain of 13 in 1990-91). Several years of strong economic growth have provided support for in-migration to the province.



Natural population change has been negative for the last two years. Because of the province's low fertility rate and aging population, natural population change will likely continue to be a constraint on population growth. Given this, population growth in the future will likely depend on migration to the province.

Medium-Term Outlook

Oil production and the development of major projects will continue to have a significant influence on GDP growth over the next several years. Real GDP is expected to decline in 2009 as oil output from both Hibernia and Terra Nova decreases due to the drawdown of reserves, and newsprint production declines following the closure of the Grand Falls-Windsor mill. Nevertheless, other economic indicators such as employment and income are expected to continue to increase. GDP is expected to change very little in 2010 and 2011. However, high levels of investment related to the development of the Voisey's Bay nickel processing facility in Long Harbour and the Hebron oil field will continue to support employment and income growth.

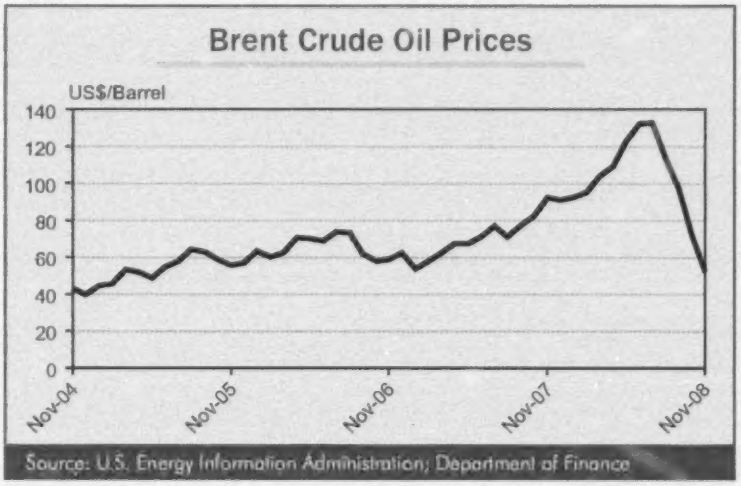
There are risks to the economic outlook associated with the current global downturn. The extent to which the provincial economy will be impacted will depend on the duration and the depth of the recession. The export sector stands to be impacted the greatest, as slowing world economic growth reduces demand for commodities such as minerals, oil, fish products and newsprint. The mining sector has already reacted to slowing demand—IOC, Wabush Mines and Vale Inco have announced production cuts for next year and Wabush Mines has issued layoff notices. Nonetheless, with record levels of investment spending planned for the next several years, the provincial economy is well positioned to weather the challenges ahead.

Oil and Gas

Offshore Production

The province's oil and gas industry has become an increasingly important part of the Newfoundland and Labrador economy over the past decade. The oil and gas industry directly accounts for 35% of the province's nominal GDP and 2% of provincial employment. Newfoundland and Labrador currently produces about 40% of Canada's conventional light crude oil.

Provincial offshore oil production is expected to total 124.9 million barrels in 2008, a decrease of 9.6 million barrels (or 7.1%) relative to the 2007 level. The price of Brent crude oil is expected to average US$97.75 per barrel in 2008 compared to US$72.44 in 2007, an increase of almost 35%. As a result of the higher crude prices, the value of oil production is expected to increase by approximately 23% in 2008 to $12.7 billion.



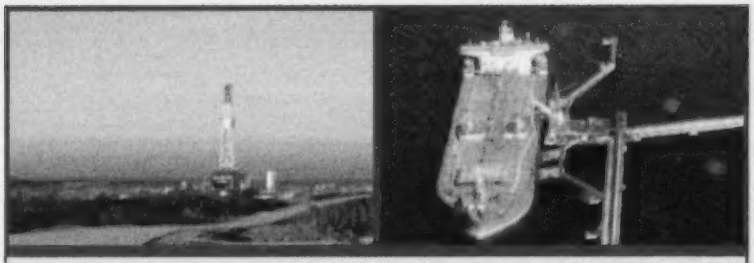
Source: U.S. Energy Information Administration; Department of Finance

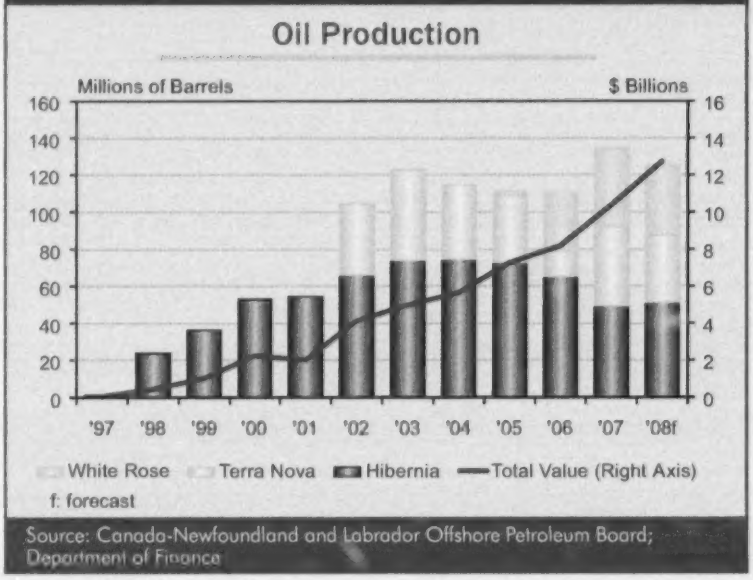
Hibernia

Hibernia produced 42.2 million barrels of oil during the first 10 months of 2008, virtually unchanged from the same period last year. Actual production for 2008 was higher than forecast in April due to an aggressive well work-over

program and improved performance from the gas flood area. For the year as a whole, production is expected to total 51.2 million barrels compared to production of 49.2 million barrels in 2007.

Negotiations between the provincial government and the Hibernia partners to develop the southern area of the Hibernia field are ongoing. The Hibernia South area has estimated recoverable reserves of 223 million barrels.





Source: Canada-Newfoundland and Labrador Offshore Petroleum Board; Department of Finance

Terra Nova

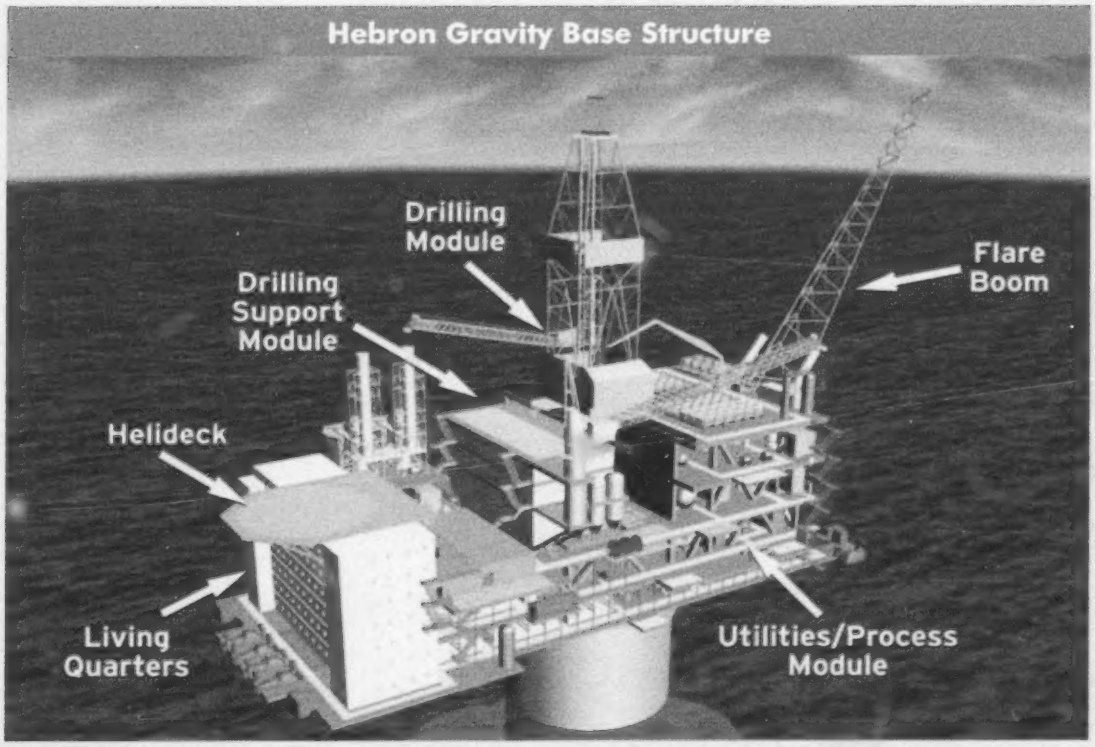
Terra Nova produced 31.6 million barrels during the first 10 months of 2008. While this represents a decline of 4.9 million barrels (or 13.4%) over the same period in 2007, it is somewhat higher than had been expected at the beginning of the year. Overall, annual 2008 production is now expected to be 36.4 million barrels, down from 42.4 million barrels last year.

Repairs to a damaged water injection swivel on the *Terra Nova FPSO*, discovered during an inspection in December 2006, have proven to be robust and have allowed normal production to continue. However, 2008 production is below that of the previous year as a result of natural production declines and ongoing maintenance to the facility. Replacement of the swivel may be required at some point in the future.

White Rose

The White Rose field produced 30.5 million barrels in the first 10 months of 2008, down 5.7 million barrels from the same period in 2007 but on track with the April forecast. Annual 2008 production is expected to total 37.3 million barrels compared with 42.8 million barrels in 2007.

The White Rose project has proposed satellite developments comprised of three distinct areas: South White Rose Extension, North Amethyst and West White Rose. The province, through its Energy Corporation, has a 5% equity stake in the White Rose satellite fields. North Amethyst is currently being developed and first oil is expected in 2010.



Hebron

On August 20, 2008 the province signed the final agreement with the Hebron consortium to develop the Hebron oil field, the province's fourth offshore oil project. The Hebron field is estimated to contain in excess of 581 million barrels of recoverable reserves. Industry partners in the Hebron development are ExxonMobil Canada, Chevron Canada, Petro Canada and StatoilHydro Canada Ltd.

The province, through its Energy Corporation, has purchased a 4.9% equity stake in the Hebron project at a cost of $110 million and will pay a proportional share of project costs and receive entitlement to a proportional share of field production. The province has also negotiated an improved royalty regime including an additional royalty of 6.5% of net revenue, after net royalty payout, when the price of West Texas Intermediate crude oil is greater than US$50 per barrel.

In addition, the province has received a commitment from the project proponents for construction of a Gravity Base Structure (GBS) in Newfoundland and Labrador. Construction of the Hebron GBS will create an estimated 4.1 million person hours of employment in the province. In addition, topsides work will further enhance local employment benefits from the project.

The project proponents have committed to begin mobilization of the project team as soon as possible. Construction of the GBS is expected to start in 2012 and oil production is expected to begin between 2016 and 2018.

Exploration Highlights

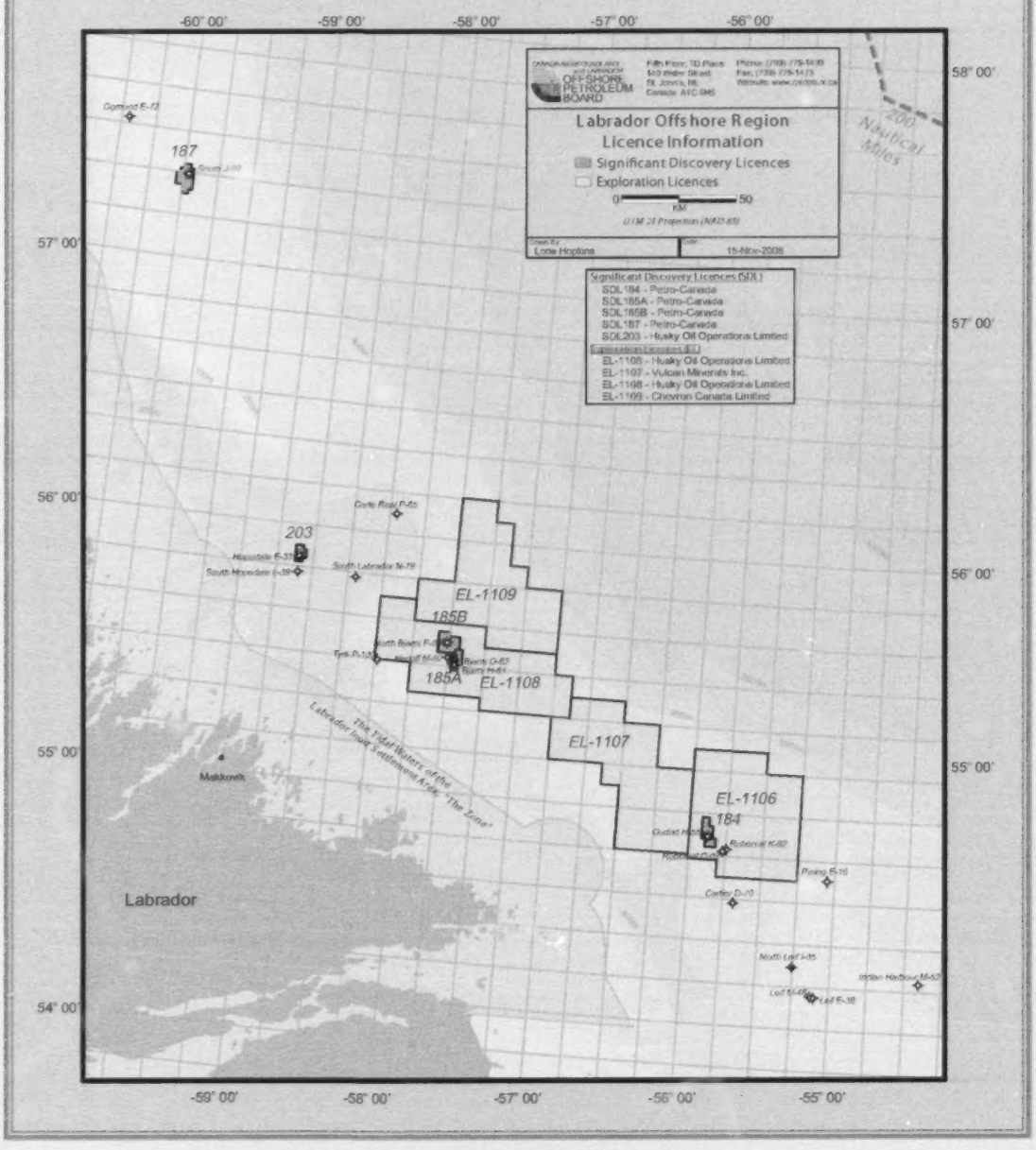
An average of 2-3 wells per year are expected over the next five years depending on results of seismic interpretations, rig availability, drilling success rates and oil and gas prices.

- Drilling of the Great Barasway (F-66) exploratory well in the Orphan Basin was completed in April 2007—results are subject to a two-year confidentiality period.
- Orphan Basin partners (Chevron, ExxonMobil, Imperial Oil, and Shell Canada) remain committed to the area and plan to drill another exploration well in the deep water basin in 2009.
- Husky and StatoilHydro will partner on the Mizzen exploration well in the Flemish Pass Basin. Drilling of the Mizzen well is expected to commence in late 2008. Additional wells are planned under the rig sharing agreement reached between StatoilHydro, Husky and Petro-Canada.
- ConocoPhillips and partners have identified potential drilling targets in the Laurentian Basin. Exploratory drilling could occur in 2009 subject to deep-water rig availability.
- To date, approximately 2.84 billion barrels of oil and 10.85 trillion cubic feet of natural gas have been discovered off the province's shores and the resource potential is considerably higher. Geoscientific data indicates that another six billion barrels of oil and 60 trillion cubic feet of natural gas remain undiscovered.

Offshore Land Sales

- The Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) announced Calls for Bids in June 2008 consisting of 10 parcels of land—five off the province's east coast and five off the west coast.
    - East coast land sales included three parcels in the Central Ridge/Flemish Pass Basin and two in the Jeanne d'Arc Basin. Successful bids were received on all five parcels totalling $129,092,000.
    - West coast land sales included two parcels near the Port au Port Peninsula and three more in the Sydney Basin off the southwest coast. Successful bids totalling $2,400,000 were received on two of the five parcels: one in the Sydney Basin and one in the Western Newfoundland Offshore Region.
- The Strategic Environmental Assessment (SEA) for the Labrador Offshore Region was released in July 2008. The SEA concluded that petroleum exploration activity can proceed in the area subject to standard mitigation measures.
- Bids on four land parcels in the Labrador Offshore Region (totalling 939,678 hectares) closed on September 10, 2008. Successful bids totalling $186.4 million were received on four parcels (green blocks on following map indicate parcel locations):
    - EL-1106 – Husky Oil Operations Limited (100% share); $10,162,800
    - EL-1107 – Vulcan Minerals Inc. (50%), Investcan Energy Corporation (50%); $9,601,000
    - EL-1108 – Husky Oil Operations Limited (75%), Suncor Energy Inc. (25%); $120,166,880
    - EL-1109 – Chevron Canada Limited (100%); $46,500,000
    - It is notable that these parcels are adjacent to areas where significant natural gas discoveries have already been identified.

Labrador Offshore Licences



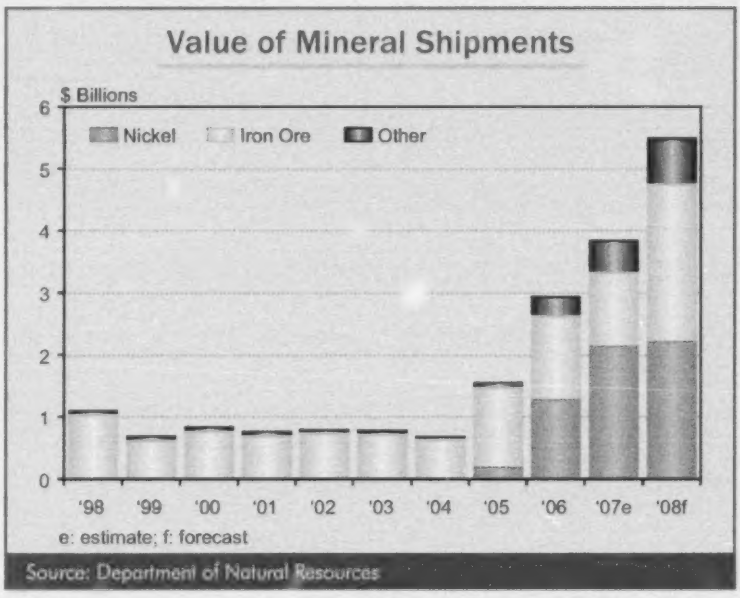
Mining

The mining industry directly accounts for approximately 11% of GDP and 2% of total employment in the province. The value of mineral shipments is expected to be about $5.4 billion in 2008, surpassing 2007's previous record high by 43%. This increase is due to higher iron ore production and prices, and increased production at Voisey's Bay. There were also record levels of exploration activity in 2008 spurred by high mineral prices throughout most of the year. Total mining employment is expected to be about 4,000 person years, an increase of 5% over 2007.

Market Conditions

Over the past several years, demand for most minerals has been robust mainly due to strong economic growth in developing countries such as China and India. As a result of this, prices for many minerals rose to historically high levels.

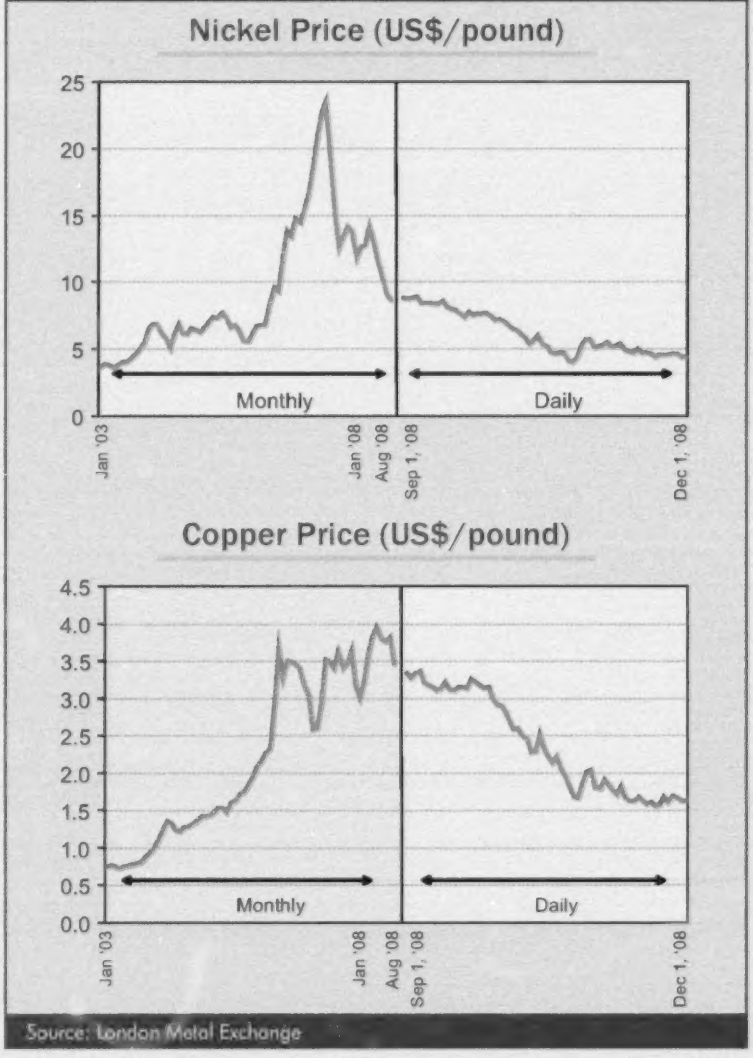
Iron ore prices are usually negotiated once a year in April. On April 30, 2008, the Iron Ore Company of Canada (IOC) announced an 86.7% increase in pellet prices and a 68.8% increase in concentrate prices for 2008. This came on the heels of a 5.8% and 10.4% increase in 2007 for pellets and concentrate, respectively. Currently, IOC



prices are US$147/tonne for pellets and US$92/tonne for concentrate compared to US$79/tonne and US$55/tonne for pellets and concentrate, respectively, in 2007.

Nickel prices averaged US$11.13/pound in the first three quarters of 2008. Although prices were down significantly from the record levels of 2007, they were still high in a historical context. Copper and cobalt reached record highs in 2008 averaging US$3.62/pound and US$39.07/pound, respectively, during the first three quarters.

The financial market crisis and the unfavourable economic outlook for many countries, in particular the United States, have already impacted mineral prices and will likely dampen demand for some minerals in the coming months. Since September, prices for nickel have dropped 50%, copper prices have fallen 51% and cobalt prices have declined 58%. In addition, spot prices for iron ore have decreased significantly in recent months.



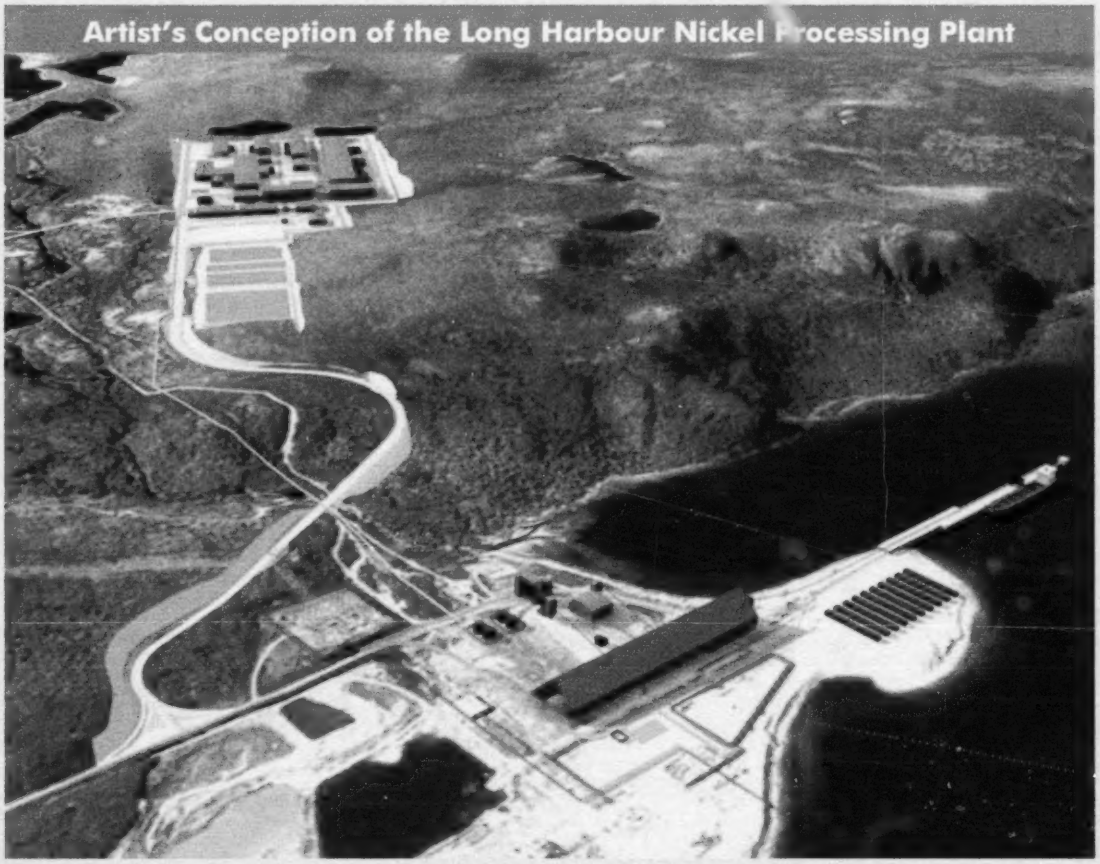
In response to declining world demand, several operators have recently announced production cuts and/or layoffs. IOC has stated that due to slowing demand for steel it will curb 2009 production by shutting down operations for the month of July and suspending expansion plans until the iron ore market improves. As a result of decreased demand for iron ore, Wabush Mines announced layoffs of 160 workers that will begin in February 2009 and will reduce production next year. As well, Vale Inco recently announced that it will shut down the Voisey's Bay operation for the month of July 2009 due to declining demand.

Voisey's Bay

Vale Inco Newfoundland and Labrador Limited (VINL) expects to ship over $2.5 billion worth of metal concentrate in 2008, up over 10% from 2007. This increase is primarily the result of higher nickel production.

On August 26, 2008, VINL's Long Harbour commercial nickel processing plant was released from environmental assessment. On November 12, 2008, the company gave notification to the province that the facility will employ a Hydromet technology. This announcement followed a two and a half year research and development plan that concluded in June. The 150 employees who worked at VINL's Demonstration Facility in Argentia were offered other jobs with Vale Inco and positions at the commercial plant once it is operational.

The nickel processing plant will cost an estimated US$2.17 billion to construct over a three-year period and will employ an average of 1,630 people per year during construction. The plant will have the capacity to produce 50,000 tonnes of finished nickel annually and will employ an average of 450 people. Presently, construction is expected to commence in late April to mid-May 2009.



Artist's Conception of the Long Harbour Nickel Processing Plant

Iron Ore

From January to September 2008, the volume of iron ore shipments increased 17% over the same period in 2007. This sizable increase was due in part to an interruption in production in March and April of 2007 because of a strike. Annual shipments for 2008 are expected to total over 21 million tonnes, an increase of 17% relative to 2007. The value of shipments is expected to more than double to over $2.5 billion as a result of higher shipment volumes and higher iron ore prices.

On March 11, 2008, IOC announced the approval of a $500 million expansion program—Phase I of a program that could eventually see capacity increase by about 50%. In September, IOC announced further expenditures of $300 million. On December 10, 2008, IOC announced cancellation of the current capital construction program (valued at $800 million) until the iron ore market improves to justify expansion expenditures.

In 2008, Wabush Mines is forecasting production of about 4.5 million tonnes of iron ore and employment of 467 people at its Scully Mine in Labrador. Wabush Mines is owned by U.S. Steel Canada Inc. (44.6%), ArcelorMittal Dofasco Inc. (28.6%) and Cleveland-Cliffs Inc. (26.8%). On March 13, 2008, ArcelorMittal announced that it had commenced legal action in the Ontario Superior Court to require U.S. Steel and Cleveland-Cliffs to comply with an agreement for the sale of their respective interests in the Wabush Mines joint venture. This sale, if concluded, would give ArcelorMittal 100% ownership of the mining company. As previously mentioned, Wabush Mines has announced a downsizing in its workforce of about 160 people and a reduction in 2009 production of 50% from 2008 levels.

Other Mines

The Teck Duck Pond copper-zinc mine, located in Central Newfoundland, is now in its second year of operation and has been steadily increasing production and its workforce. The company expects to produce 650,000 tonnes of concentrate per year and employ an average of 192 people annually.

In 2008, Beaver Brook Antimony Mine Inc. reactivated the antimony mine located near Glenwood after a 10-year closure. It was closed due to declining prices but the antimony market has since rebounded. In November, the company temporarily laid-off 20 full-time workers as decreasing demand in China and financial market turmoil resulted in the loss of a short-term contract. The mine has a life expectancy of 10 years and, prior to the layoff, employed 100 people.

On May 5, 2008, Anaconda Gold Corporation announced it had begun operations at its Pine Cove gold project located near Baie Verte. In 2005, the company redesigned its mine plan from a 1,000 tonne/day operation to a 350-500 tonne/day operation. This extends the mine life from six to 12-15 years. Production is expected to be 188,434 ounces of gold over the mine life and employment is expected to be 44 person years annually. The Pine Cove mine is currently working toward solving gold recoveries.

Exploration

Over the past several years the commodity market has been strong, resulting in increases in exploration and mine redevelopment. Estimated exploration expenditures for both 2007 and 2008 were at a record high of $148 million. Base metals continue to be the most sought after minerals followed by uranium, gold and iron ore. Strong international demand for these metals and the mineral potential of the province are the primary driving forces of exploration activity.

The recent financial market turmoil may have an adverse impact on mineral exploration. Access to capital has been tightening and this will be a challenge, especially for junior companies. This, along with declining commodity prices, may decrease the level of exploration activity in the province over the coming months.

New Developments

New Millennium Capital Corporation (NML) and Labrador Iron Mines Holdings Limited (LIM) hold mineral claims for iron ore projects at the Labrador/Quebec border near Schefferville. The two projects could see the development of deposits that were outlined by IOC prior to shutdown of its operations in the area in 1982. These deposits typically range from 50%-55% iron. Both projects have target dates of mid-2009 to early-2010 to begin construction. LIM claims that its current cash position (about $45 million) is sufficient to bring their project to production. NML has a preliminary agreement in place with Tata Steel of India that could provide project financing if a pending feasibility study proves the project to be economical. Currently, both projects are moving forward in the environmental assessment process. If both of these projects were to be developed concurrently, total production would be comparable to current iron ore production at Wabush Mines (4.6 to 5.0 million tonnes).

Forestry and Agrifoods

Forestry

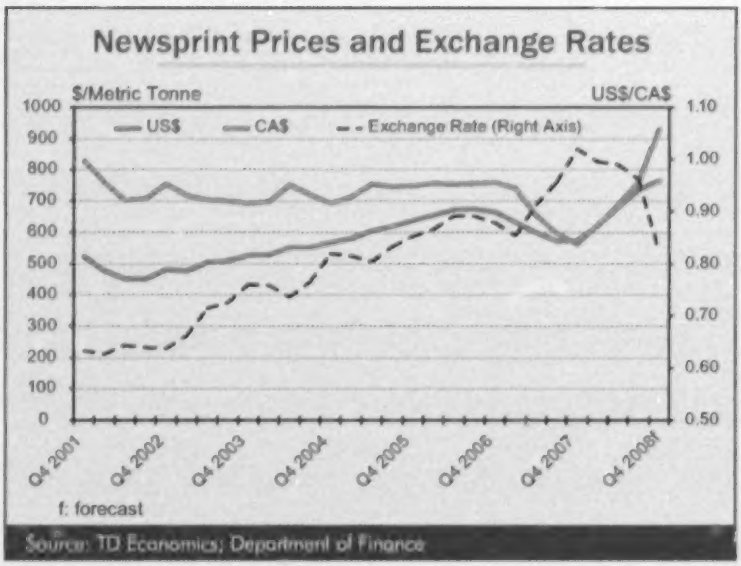
Newsprint

North American newsprint consumption has been in steady decline for more than a decade as a result of increased web-based competition and a shift by newspaper publishers towards smaller tabloid form papers. This trend continued in 2008. During the first eight months of this year, U.S. newsprint consumption decreased by 11.5% and the value of Canadian newsprint shipments declined by 12.0%.

In an effort to maintain profitability, newsprint producers have cut production over the past few years by closing some of their highest cost mills and idling many of their older, less efficient, paper machines. Production continued to decline in 2008—North American newsprint production was down 8.9% during the first eight months of 2008 in comparison to the same period in 2007. The reduction in supply helped boost newsprint prices. Newsprint prices have increased rapidly over the past year—from US$560 per tonne in October 2007 to US$775 per tonne in November 2008 (see chart on following page). However, many industry analysts believe that further capacity reductions may be necessary in order to maintain these higher price levels.

Since newsprint is an exported commodity priced in U.S. dollars, the profitability of the industry is dependent not only on newsprint consumption but also upon fluctuations in the exchange rate. Recent exchange rate movements are working in favour of Canadian newsprint producers—something that has not occurred for several years. The chart on the following page illustrates the divergence between U.S. and Canadian dollar newsprint prices over the past several years. Over

the 2002 to 2006 period, gains in U.S. dollar prices were mostly offset by the appreciation of the Canadian dollar and hence these price increases provided little net benefit to Canadian producers. In 2007, the situation worsened as U.S. dollar prices declined in conjunction with continued appreciation of the Canadian dollar. More recently, U.S. dollar prices have rebounded, and this, together with the recent depreciation of the Canadian dollar is now improving the relative position of Canadian newsprint producers.



The volume of provincial newsprint shipments decreased by 8.9% during the first three quarters of 2008 while the value of shipments fared slightly better, down 6.0%. On an annual basis, the volume of newsprint shipments is expected to total approximately 500,000 tonnes, down 9% from 2007. However, the value of shipments is expected to be up 5.3% as a result of further increases in U.S. dollar newsprint prices and rapid depreciation of the Canadian dollar in the fourth quarter of 2008.

On December 4, AbitibiBowater announced that its mill in Grand Falls-Windsor will be permanently closed by the end of the first quarter 2009. The mill currently employs about 450 full-time/full-year workers and its woodlands operations employs more than 500 seasonal and part-time employees.

Lumber

The volume of provincial lumber production is expected to decrease by approximately 40% this year to 70 million board feet. Many local producers are finding it unprofitable to operate their sawmills due to a continual decline in lumber prices—the result of downturns in the Canadian and U.S. housing markets. Lumber prices have declined by approximately 50% since 2004. This decline is due to the combined effect of a drop in U.S. dollar prices for lumber and appreciation of the Canadian dollar over this period. Lumber is currently trading for approximately US$225 per thousand board feet, down from US$405 in 2004.

In addition to the downturn in the North American housing market, the province's lumber industry has had to contend with a number of other challenges. Large volumes of cheap lumber have been placed into an already oversupplied market. This is due to salvage operations related to the pine bark beetle infestation in British Columbia and Alberta. Also, a downturn in the newsprint industry has resulted in reduced demand for pulpchips, which are a valuable by-product of lumber production and contribute greatly to sawmill cash flow.

Agrifoods

Farm Cash Receipts

Local farmers are having a good year with revenue from most agricultural products exhibiting positive year-over-year growth. Total farm cash receipts (FCR) increased by 10.9% in the first three quarters of 2008 to $86.6 million.

During the first three quarters of 2008, receipts from dairy production (44% of total FCR) were up 15.9% to $37.7 million; receipts from egg production (12% of total FCR) were up 7.1% to $10.0 million; receipts from fur production (9% of total FCR) were up 42.6% to $7.6 million; and receipts from other farm products were up 1.3%.

Historically, receipts from chicken production accounted for just over 20% of total farm cash receipts. While this category is no longer published by Statistics Canada, data from the Chicken Farmers of Canada indicate that the volume of chicken production in the province increased by 3.5% during the first nine months of 2008 compared to the same period in 2007.

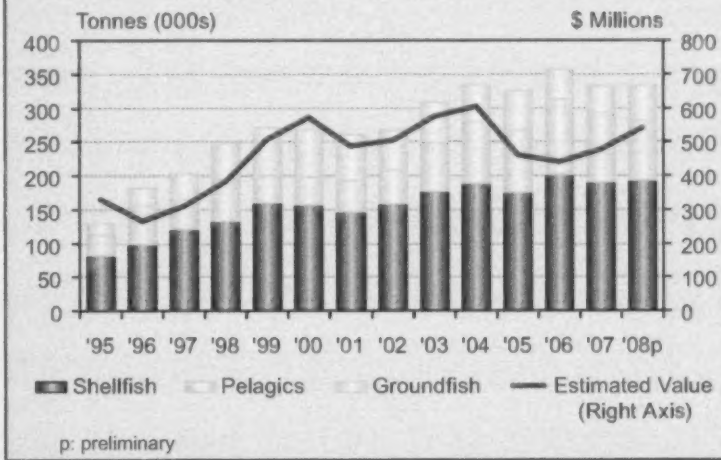
Agrifoods Development Funding

The province funded several initiatives in Budget 2008 to enhance the development of the local agrifoods industry. Highlights of the funding include: $2.95 million for the developing cranberry industry to provide for increased plant propagation, site development and specialized equipment; $1 million for research and development activities focusing on developing new and improved crops and livestock systems; and $442,000 for the Agriculture Limestone Program in recognition of the importance of the program as the industry expands. Additionally, the provincial government announced a $10 million Farm Loans Guarantee Program to help farmers secure capital from financial institutions to grow their operations and become more competitive.

Fishery

The Newfoundland and Labrador fishery performed well in 2008 despite a challenging operating environment. Preliminary estimates indicate that landings will be over 334,000 tonnes, on par with last year, and value is expected to increase from $479 million in 2007 to approximately $540 million in 2008. Price increases for some species and higher landings of yellowtail flounder and crab are the main factors behind the solid performance. On the downside, external competition from low cost producers, high fuel costs and exchange rate impacts continued to challenge both harvester and processor margins.

Volume and Value of Fish Landings



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Source: Department of Fisheries and Aquaculture

Fishing industry employment declined in 2008. Employment during the first 11 months of the year averaged 12,400[1], down from 13,700 during the same period last year. Declines occurred on both the harvesting and processing sides of the industry. Harvesting employment averaged 6,600, down from 7,600 in 2007, while processing fell from 6,100 to 5,800.

Harvesting

Shellfish landings are expected to be higher in 2008. Crab landings increased by approximately 5% to

[1] This figure is from the Statistics Canada Labour Force Survey and is the average of the first 11 months of 2008. The actual number of people that worked in the fishery during the year was between 23,000 and 24,000.

53,000 tonnes from just over 50,000 tonnes in 2007. Landings in the inshore shrimp fishery increased to about 77,000 tonnes, approximately 9% higher than in 2007. Higher shrimp landings reflected a 9,000 tonne increase in the inshore quota.

Groundfish landings are expected to increase by 23% this year to approximately 50,000 tonnes. This increase is mainly due to higher yellowtail flounder landings. Cod landings in 2008 were similar to 2007.

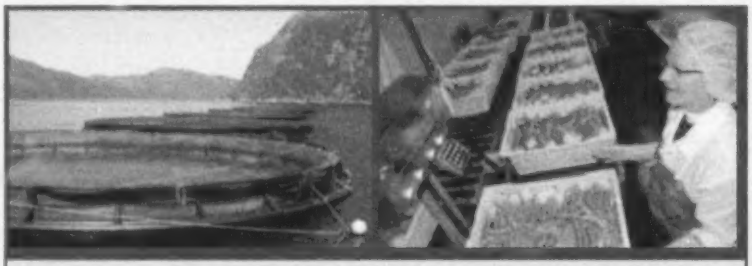
Pelagic landings are expected to be down in 2008, due mainly to reduced mackerel catches. The capelin fishery, with landings of about 37,000 tonnes, was on par with the 2007 performance. Overall, pelagic landings are expected to be down 15% to 87,000 tonnes.

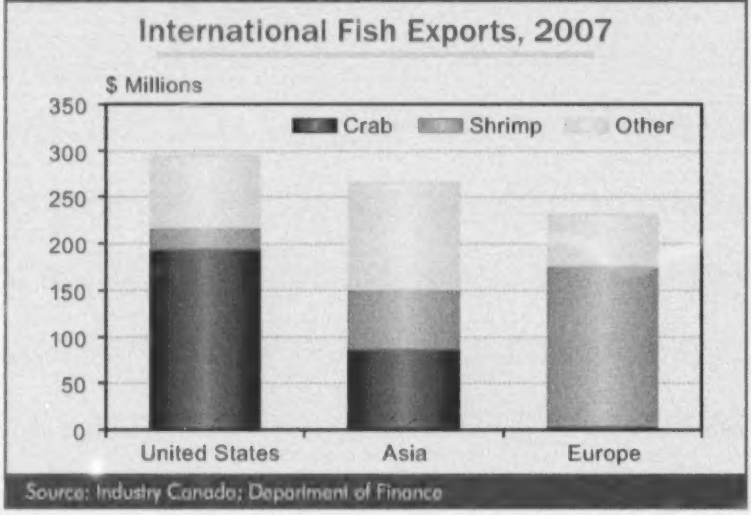
Total landed value is expected to increase from $479 million in 2007 to approximately $540 million this year. Higher crab volume in combination with stable prices played a key role in this performance. Crab prices have rebounded from the lows registered in 2006 (e.g., less than $1 per pound) and were relatively stable for 2008 with the average price paid to harvesters reported to be around $1.50 per pound. Shrimp prices were up between 20% and 35% this year depending on the type of shrimp fishery (i.e., inshore/Gulf or offshore).

Processing and Marketing

Just over 140 processing facilities (113 primary) operated in the province this year and to September, the value of fish exported to international markets was up by 1%.

The United States remains the biggest international market for seafood exports from the province, however, Asia and Europe are also very important markets. In 2007, the U.S. accounted for about 37% of the value of the province's seafood exports. This stands in stark contrast to the years prior to the groundfish moratoriums, when over 70% of exports were shipped to the U.S. Last year, Asia and Europe accounted for 33% and 29%, respectively, of seafood exports. The product mix



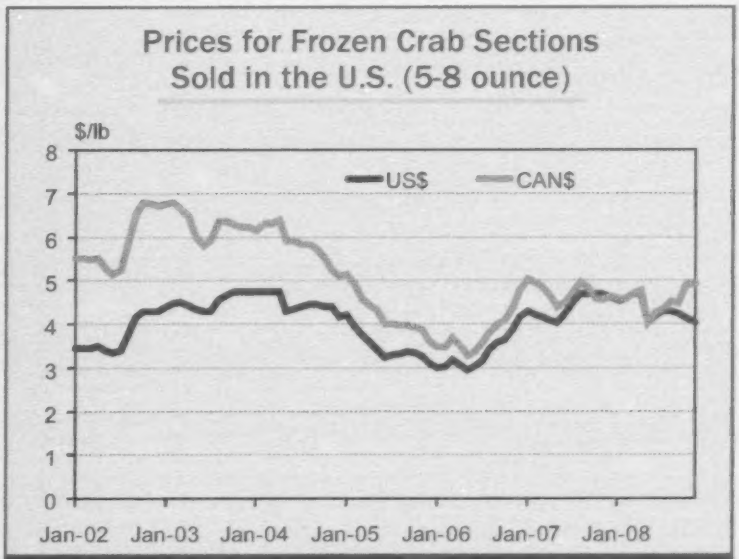


varied considerably by market as indicated in the chart on the previous page. The vast majority (i.e., 68%) of the crab exported from the province was sold in the U.S. while the vast majority (i.e., 66%) of shrimp was sold in Europe.

Snow crab market prices were down in 2008 compared with last year. During the first 11 months, prices for 5-8 ounce crab sections averaged US$4.34 per pound, down 1.2% from the same period in 2007. The high value of the Canadian dollar throughout most of this year negatively impacted producer margins—the Canadian dollar price declined by 3.7% over the period. China is the second largest consumer of provincial crab, purchasing 27% of the province's crab exports in 2007. While the current outlook for crab prices over the next 12 months is stable, the impact of the global recession does introduce an element of uncertainty.

The European Union (EU) continues to be a major market for cooked and peeled coldwater shrimp. However, some of the product is subject to substantial punitive tariffs which puts Canadian exporters at a competitive disadvantage. Some improvement in this situation has occurred in recent years with the amount of Canadian shrimp that can be sold to the EU under the lower 6% tariff increasing from 7,000 to 20,000 tonnes. Shrimp sold above the quota are subject to a 20% tariff while many competitors have preferred market access (e.g., zero tariffs for a portion or all of their shrimp sold).

Marketing efforts of the shrimp fishery received another boost in August with international certification of the Canadian northern shrimp trawl fishery from the Marine Stewardship Council. This certification indicates that the industry meets environmental standards for being well-managed and sustainable in the capture of wild fish. With retailers in Europe and the U.S. becoming increasingly concerned about the environmental sustainability of the seafood that they sell, this move bodes well for sustained competitiveness of the province's shrimp fishery.



Source: Urner Barry Publications Inc; Bank of Canada; Department of Fisheries and Aquaculture; Department of Finance

Aquaculture

Aquaculture production is expected to increase dramatically this year. Production is expected to rise from about 8,300 tonnes in 2007 to about 14,000 tonnes in 2008. Similarly, value is expected to increase from $40 million last year to over $60 million in 2008. This growth largely

reflects the harvesting and processing of salmon from the Cooke Aquaculture operation on the South Coast. Cooke announced significant investments in the province in 2006. The company retro-fitted the Harbour Breton plant in late 2007 and began salmon production early this year.

Another significant aquaculture investment was announced in June. Gray Aqua Group Limited of New Brunswick will establish a $16 million, four site salmon aquaculture operation in the Bay d'Espoir region. The province will provide a loan guarantee of $6.8 million under the Aquaculture Working Capital Loan Guarantee Initiative and an equity investment of $1 million under the Aquaculture Capital Equity Investment Program.

Gray Aqua Group is a subsidiary of Gray Aquaculture Limited which has been an active participant in the salmon industry in New Brunswick for 18 years. The company owns a salmon hatchery operation and has been supplying smolt to Newfoundland and Labrador for many years. The provincial headquarters for the company is located in Conne River and its new farming sites are located in the Bay d'Espoir region near Conne River.

Seal Fishery

The sealing industry continues to be an important economic activity for many individuals in Newfoundland and Labrador, and other Canadian provinces and territories. In this province, approximately 6,000 people derive a portion of their annual income from the industry.

The estimated number of seals harvested this past spring was 215,000, slightly lower than the previous season. However, a drop in pelt prices from $53 in 2007 to $33 in 2008 caused the value to decline considerably. The value of seals harvested was $6.8 million, compared with $10.9 million last year.

The sealing industry may be impacted if EU legislation is passed prohibiting the importation and transshipment of seal products. It appears the legislation will be introduced to the EU Parliament, however, the exact timelines are still uncertain. The province continues to work with the federal government and the Canadian sealing industry on this issue. The province supports action through the World Trade Organization, if necessary, to prevent the implementation of this ban.

Manufacturing

The provincial manufacturing industry accounts for approximately 4% of GDP and 7% of total employment. The largest manufacturing groups in the province are food processing (mainly fish), newsprint and refined petroleum.

Manufacturers across Canada have had to contend with a protracted period of challenging business conditions—a relatively high valued Canadian dollar and high energy and material costs. Automobile/parts and newsprint manufacturers have been particularly hard hit. National manufacturing employment has retreated from peak levels in 2002 with the largest losses (on an annual average basis) recorded in the provinces of Quebec (down 16.3% since 2002) and Ontario (down 13.1% since 2002). While manufacturing employment in Newfoundland and Labrador has been volatile over the period, 2007 levels were roughly on par with 2002.

Company Profile

Terra Nova Shoes

Products:	Regular and light weight safety work boots, casual boots, shoes and joggers, felt lined logins (felt paks), military combat boots
Location:	Harbour Grace
Established:	1972
Employment:	188
Export Markets:	Japan, South America, United States, Western Europe
Recent Developments:	Completed a major expansion to its existing facility to increase capacity

Until recently, the appreciating Canadian dollar had created significant challenges for many firms in the manufacturing industry. The Canadian currency was at parity with the U.S. dollar in February and stayed at about US$0.99 for most of the first half of 2008. Companies selling products in U.S. dollars but paying costs in Canadian dollars saw profits squeezed for most of 2008. However, since July, the dollar has declined and by early December had fallen to about US$0.79. The recent depreciation of the Canadian dollar vis-à-vis the U.S. dollar should help exporters.

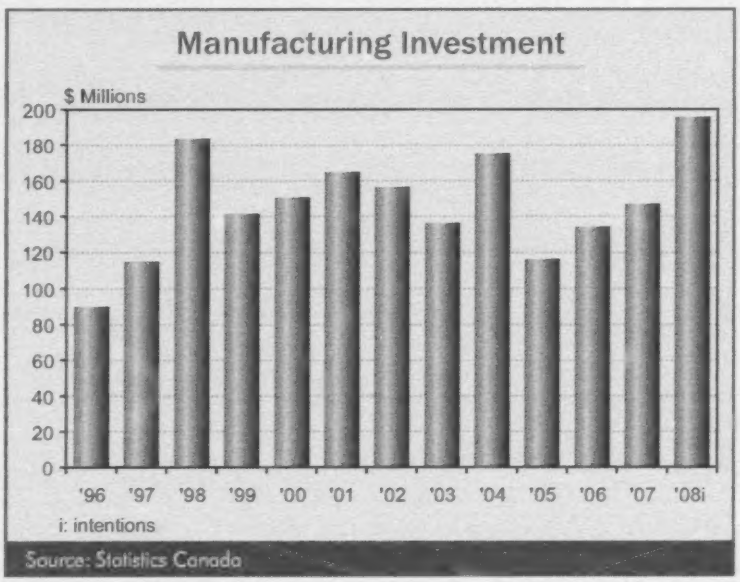
The value of provincial manufacturing shipments has risen considerably this year. The total value of manufacturing shipments for the first nine months of 2008 was approximately $5.5 billion, representing an increase of 32.2% over the same period in 2007. This was mostly due to higher value for refined petroleum. According to Industry Canada's export data for the first nine months, the value of refined petroleum products exported from the province increased by 39.2% in 2008 compared to the same period of 2007.

While the value of manufacturing shipments rose this year, employment in the industry declined in 2008. During the first 11 months of 2008, manufacturing employment reportedly decreased by 11.3% compared to the same period in 2007.

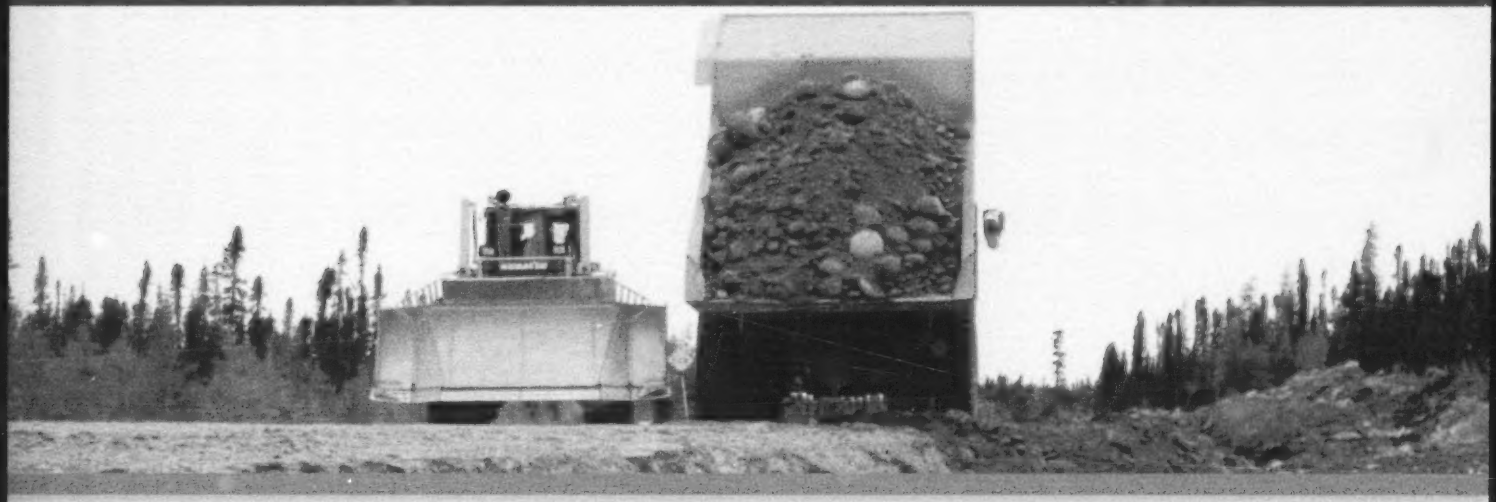
Newsprint shipments have declined in 2008. For the first three quarters, the volume of newsprint shipments decreased by 8.9% compared to the same period in 2007. The value of newsprint shipments declined by 6.0% over the same period. On an annual basis, newsprint shipments are expected to total 500,000 tonnes, a 9.0% decline from 2007. However, the value of newsprint shipments is expected to increase by about 5.3% in 2008 as a result of higher newsprint prices and a depreciating Canadian dollar in the last half of the year.

There were some notable gains in fish processing. The value of manufactured fish products increased by 30.8% in the first nine months of 2008 compared to the same period in 2007. However, the timing of shipments (relative to the same period last year) is believed to be behind part of this increase.

Challenging conditions have not deterred provincial manufacturers from investing in their facilities. Over the past three years, investment in manufacturing activities has risen consistently. Manufacturing investment is expected to exceed $195 million in 2008, an increase of 33% over 2007. This increase is due in part to higher capital expenditures at the North Atlantic Refinery—up 17.0% for the first three quarters of 2008 compared to the same period in 2007. Over the past several years 75-80% of manufacturing capital expenditures, on average, have been spent on machinery and equipment and the remainder was spent on construction. The development of a nickel processing plant in Long Harbour should boost manufacturing investment starting in 2009.



Construction

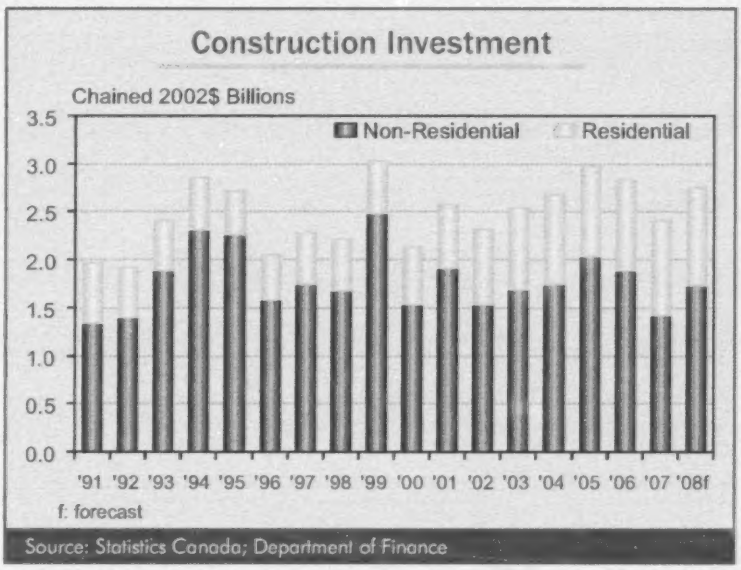


The construction industry is expected to post another solid performance in 2008. The level of construction investment is higher than 2007 in both nominal and real terms and marks one of the best performances in recent years. Total construction investment is expected to increase by 20.8% (14.1% in real terms) to reach $3.4 billion in 2008 while national construction investment is expected to increase by 5.0%. This year's rise in construction activity reflects higher residential and non-residential spending.

Non-Residential Construction

Non-residential construction accounts for the largest portion of industry expenditure and is expected to record strong growth in 2008; investment is estimated to increase by 30.6% (22.5% in real terms) to total $2.2 billion. The majority of the increase in non-residential construction spending is related to increases in the mining and oil and gas industries.

Construction spending in many sectors outside of mining and oil and gas is also expected to record growth in 2008. The most significant growth is



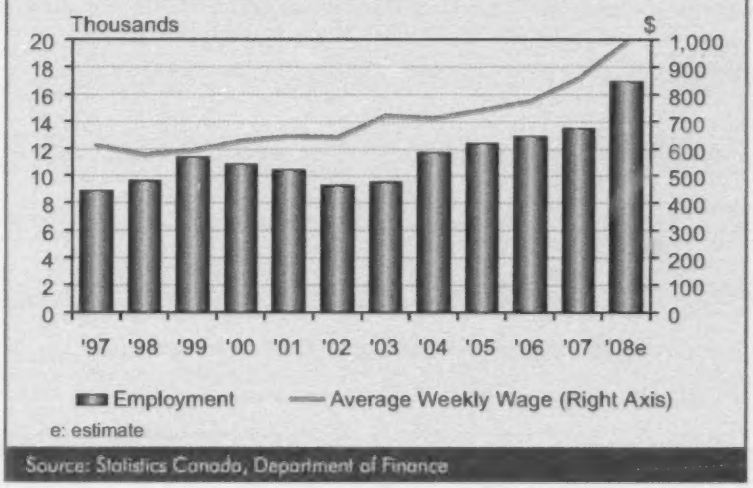
expected to come from the public sector; construction spending by federal, provincial and local governments (outside of health and education) is expected to increase 9.4% and educational services is expected to rise 8.9%. Ongoing major projects in the public sector include: the application of hard surface on the Happy Valley-Goose Bay to Wabush portion of the Trans Labrador Highway; the construction of the Cartwright to Happy Valley-Goose Bay portion of the Trans Labrador Highway; and, the continuation of the St. John's harbour clean-up. There were also notable gains recorded among other industries including: real estate and rental and leasing; finance and insurance; and, other services.

Residential Construction

Investment in residential construction has risen in 2008. According to a Statistics Canada investment survey released early this year, residential construction investment was expected to total $1.2 billion, up 6.0% (2.3% in real terms) this year compared to 2007—marking the tenth consecutive year of growth. Year-to-date statistics suggest that this expectation may be exceeded. From January to September, residential construction spending was up 18.3%. Spending on both renovation and new dwellings contributed to the increase. Renovation expenditures were up 8.4% year-to-date and expenditures for new dwellings rose 35.2% in the January to September 2008 period. The increase in spending for new dwellings was consistent with a rise in the number of housing starts—up 25.4% (or 466 units) in the January to September 2008 period. Given the strong performance to date, housing starts for all of 2008 are expected to increase by 17.4% to 3,111 units. (See also *Real Estate* p. 33.)

Employment and Wages

Construction employment has recorded notable growth over the past decade as indicated in the chart. Over the January to November 2008 period, construction employment averaged 16,700 marking a 24.4% increase over the same period in 2007. This compares to a 1.7% increase in total provincial employment for the same period. Construction employment also recorded strong growth at the national level (up 9.1% on a year-to-date



basis), however, Newfoundland and Labrador outperformed Canada by a significant margin. Increased demand for construction workers was reflected in a rise in average weekly earnings for the construction industry—up 15.5% in the January to November 2008 period.

The local construction industry, like the national industry, has experienced increased levels of activity in recent years. The strong demand for construction workers will continue to be a challenge for contractors and companies in securing qualified skilled workers. The once seemingly large pool of unemployed seasonal workers available to employers in this industry has been shrinking as the duration of employment has increased. This is evidenced by Employment Insurance (EI) statistics for the province for some construction-related occupations. Individuals in *trades, transport & equipment operator* occupations worked an average of 36 weeks in 2007 prior to applying for EI compared to about 23 weeks in 1992. Similarly, individuals in *construction labourer* occupations worked about 29 weeks prior to applying for EI in 2007 compared to 17 weeks in 1992. These statistics have been impacted by employment opportunities in recent years as well as changes in EI regulations.

High Levels of Construction Investment Expected to Continue

Indications are that the provincial construction industry should continue to see high levels of investment. This is evidenced by a rise in the value of building permits, which measures the value of construction intentions. The value of building permits grew by an annual average of 11.9% between 1997 and 2007 and on a year-to-date basis value increased 33.6% relative to the January to August 2007 period. The majority of the year-to-date growth (75%) is due to an increase in the value of residential building permits.

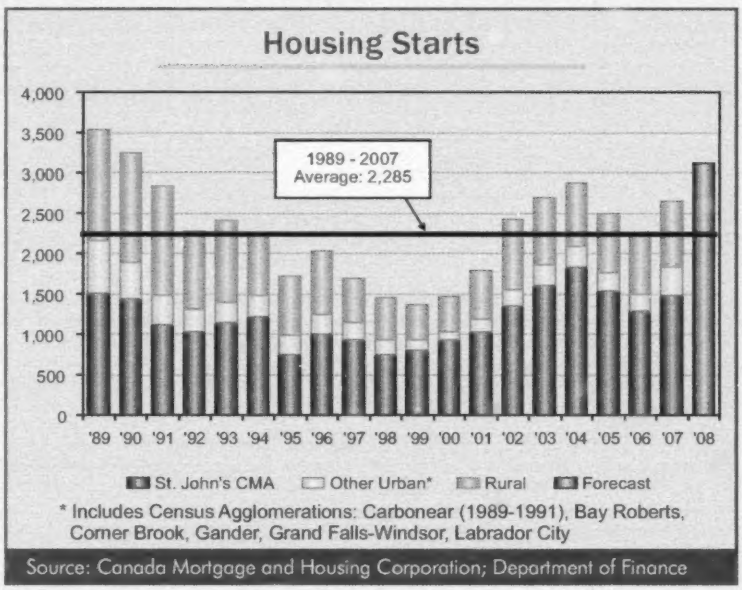
Real Estate

Residential housing market conditions were robust in 2008. Increased housing demand stemmed from strong economic performance, low interest rates, optimism about future major projects, and household growth. Housing starts are expected to increase to a level not seen since the early 1990s. Residential sales activity and prices reached record levels. Other capacity indicators like rental vacancy rates are at, or near, historical lows.

Housing Starts

During the first three quarters of 2008, housing starts totalled 2,298 units, up 25.4% compared to the same period in 2007. By comparison, housing starts were down 4.9% in the Maritimes and 5.3% in Canada.

Urban areas account for approximately two-thirds of housing starts in the province. Both urban and rural areas recorded significant gains this year. In the first 11 months of 2008, urban housing starts were up 19.1% to 1,987 units over the same period in 2007. Rural starts were up 32.7% to 718 units in the first nine months of the year. Total housing starts are expected to reach 3,111 units in 2008, an increase of 17.4% from 2,649 units in 2007. Since 1989, housing starts have averaged 2,285 units per year.



Residential Sales and Prices

Residential sales activity and prices have increased to record levels. The number of residential properties sold in the province through the Canadian Real Estate Association's Multiple Listing Service® (MLS®) during the first 11 months of 2008 was 4,413, an increase of 7.2% from 4,117 during the same period in 2007. Total MLS® sales are expected to reach a record 4,800 in 2008, surpassing the previous record of 4,471 in 2007.[2] This performance is in contrast to the national residential market. MLS® sales are expected to decrease by 13.6% in Canada and are also expected to decrease in all Maritime provinces during 2008.

Source: Canadian Real Estate Association; Canada Mortgage and Housing Corporation

Strong demand for housing, especially during summer months, created a buying frenzy. During the first 10 months of 2008, the average number of active MLS® listings in the province (a measure of housing availability or supply) declined by 40.8% to 1,498 from 2,530 in 2007. Homes were being purchased as soon as they hit the market and sellers were receiving multiple offers—sometimes well above the asking price. As a result of increased demand, housing prices increased. During the first 11 months of 2008, the average MLS® residential price was $176,759, an increase of 19.4% compared to 2007.

Increased demand for housing in recent years is the result of employment and income growth, household formation, low mortgage rates and a positive business environment, facilitated in part by continued optimism surrounding a number of future major projects. In addition to these factors, industry has indicated that demand for residential units is also being fuelled by expatriates living in other provinces and residents who commute to other provinces for work and are purchasing local real estate for personal and/or investment purposes.

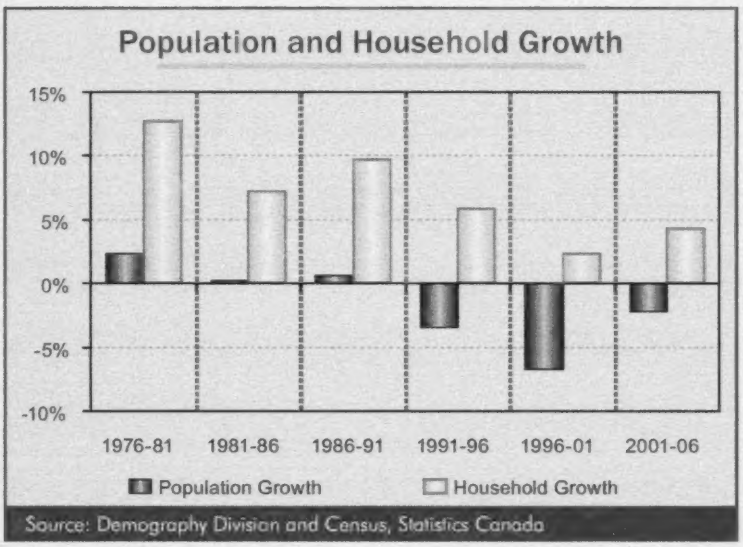
[2] Approximately 90% of MLS® listings are located on the Avalon Peninsula and do not include exclusive or private sales.

Rental Market

Rental vacancy rates are at or near historical lows throughout Newfoundland and Labrador. Vacancy rates in urban areas have decreased from a high of 15.4% in 1997 to 1.1% in 2008. During 2008, vacancy rates were lowest in St. John's (0.8%), followed by Corner Brook (0.9%) Grand Falls-Windsor (1.9%), Gander (2.6%), and Bay Roberts (4.0%). Although vacancy rates are low, rental prices remain the lowest in Atlantic Canada. In 2008, the average rent for a two-bedroom apartment in Newfoundland and Labrador was $596 compared to $607 in New Brunswick, $622 in Prince Edward Island, and $795 in Nova Scotia. Improved labour markets, positive net-migration, higher housing prices, and a lack of recent rental construction is expected to keep vacancy rates low and place some upward pressure on rental prices.

Household Growth

The positive rate of household growth has been a factor contributing to housing demand over the past number of years. Declining births and an aging population have caused the average household size to decrease. As a result, the number of households in Newfoundland and Labrador has been growing at a much faster rate than the population. For example, since 1991 the population of the province has decreased by 12.0% but the number of households has increased by 13.0%. This has contributed to the tightening of both the rental and resale markets as well as the robust pace of construction in the new home market.



Source: Demography Division and Census, Statistics Canada

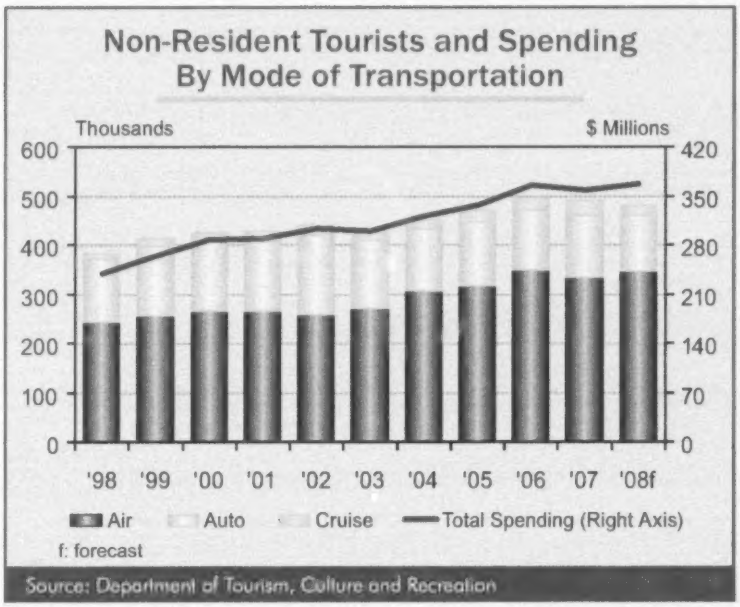
Tourism

Tourism performed well in 2008 considering the challenges facing the industry. While provincial non-resident tourism activity is expected to have declined compared with 2007, the number of non-resident visitors remains near historically high levels. Non-resident visitors recorded annual average growth of approximately 3% over the five-year period (2003 to 2007).It is estimated that by the end of 2008 about 480,200 non-resident visitors will have come to the province, a decline of 2.0% over visitation in 2007. A significant decrease in both non-resident automobile and cruise ship visitors more than offset an increase in non-resident air visitors. The value of tourist spending is expected to increase reflecting the increasing cost associated with travel. Non-resident visitor expenditures are estimated to have risen by 2.5% in 2008 to approximately $366.3 million.

Tourism in all provinces was impacted by the high price of fuel and the high Canadian dollar that prevailed throughout the peak tourist season of 2008, making travel to and within Canada more expensive. The latest data for the Canadian domestic travel market indicates a slowing of spending activity in the second quarter of this year—domestic spending grew by only 1.2% between the first and second quarters, the lowest quarterly growth since the third quarter of 2006. Furthermore, the number of international visitors to Canada fell by 5% during the January to September period compared to the same period of 2007. In Atlantic Canada, Newfoundland and Labrador is holding its own. For example, non-resident visitation in Nova Scotia declined 3% in the January to September 2008 period while that for Newfoundland and Labrador decreased by 1%.

Tourists travelling to Newfoundland and Labrador are much more likely to fly than to drive—for every person arriving by automobile there are about three people arriving by airplane. Non-resident air travel visitation rose in 2008 and is expected to increase by 3.8% to 346,600 visitors for the year. This increase is due in part to improved air access as the number of flights and seats

available rose in the first three quarters of 2008 compared to the same period of 2007. Spending by non-resident air visitors is also expected to rise, up 5.9% to $295 million.



Non-resident automobile visitation declined significantly this year reflecting high gas prices and the increased fuel surcharge applied to Marine Atlantic rates during the summer (the surcharge rose to 27.7% on July 1, 2008 from 9.9%). The number of non-resident automobile visitors is expected to fall by 10.7% to 113,800 in 2008 while related expenditures are expected to decrease by 9.0% to $69.8 million. During the January to October 2008 period, automobile visitors coming from other provinces declined—particularly those from Ontario (down 15.3%) and the Maritimes (down 7.3%).

The province appears to be gaining popularity as a destination for cruise ships as evidenced by increased volumes of cruise traffic over the past decade. The number of cruise ship port calls rose from 102 in 2007 to 152 during the 2008 cruise season. In 2008, unique cruise visitors[3] totalled 19,800 with estimated associated expenditures of $1.6 million. While the number of port calls increased, the number of unique cruise visitors dropped by 31.0% during the 2008 cruise season mainly because of a lower load factor (the passenger capacity utilization rate). The load factor was about 90% in 2008, down from 95% during the 2007 cruise season.

New Ferry Coming Into Service

Ferry capacity to and from the province will increase in 2009 with the addition of the MV *Atlantic Vision* to the Marine Atlantic fleet. The MV *Atlantic Vision* will be able to carry 531 cars (50% more than the MV *Caribou* or the MV *Joseph and Clara Smallwood*) and will offer 196 cabins (compared to 50 cabins on each of the other two vessels). On a per vehicle basis, the new vessel will be 34% more fuel efficient than the existing carriers.

Considerable effort has gone into developing the meeting and convention market on the Northeast Avalon. This effort appears to be paying off as preliminary data indicates that major meeting and convention activity (those booking 50 or more guest rooms per night) increased significantly in 2008. The number of meeting and convention delegates is expected to increase by over 18,000 to about 38,000 in total—marking a record high. While the number of delegates increased, the number of meetings and conventions decreased from 100 last year to 78 in 2008, reflecting a rise in the number of relatively large conventions.

[3] This refers to the number of individuals visiting the province on cruise ships. The visitor is only counted once regardless of the number of port calls made.

Special Feature—Service Sector

Introduction

Discussions of Newfoundland and Labrador's economic performance tend to focus primarily on the goods sector. This is because output from the goods sector is tangible and more easily measured. Despite the lack of performance data for many service industries, the service sector comprises a large share of the provincial economy and is very important to total economic output and employment.

Evolution of the Service Sector

When market economies begin to develop, they tend to be dominated by primary industries such as forestry, fishing and mining. Over time, the manufacturing sector develops. As an economy matures, the service producing sector grows and eventually dominates. The United States evolved into a "service economy" in the late 1950s when more than half of the employed population was no longer involved in goods production. In 1961, Canada's service producing sector accounted for 54% of total employment and 55% of Gross Domestic Product (GDP)—today the comparable service shares are 76% of employment and 66% of GDP.

Newfoundland and Labrador's economic development has followed a similar trend. In 1976, the service sector accounted for 68% of provincial employment and 60% of provincial GDP—by 1997 the comparable service sector shares were 77% of employment and 74% of GDP. However, over the past decade, the service sector's share of GDP has declined in conjunction with rapid growth in the oil and gas industry. Currently, the service sector accounts for approximately 78% of provincial employment and 42% of the province's GDP.

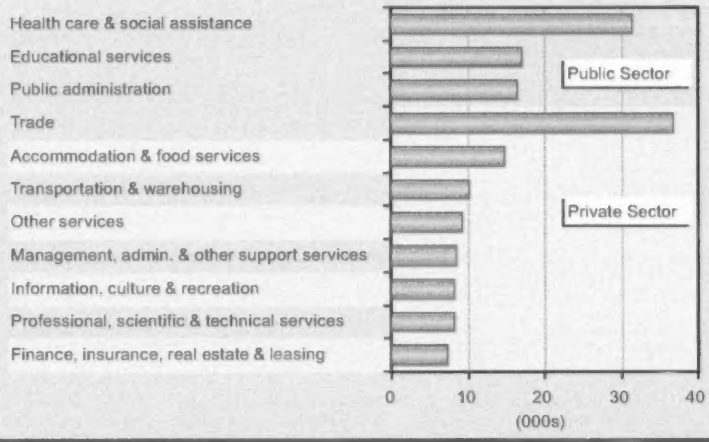
In line with its employment contribution, the service sector accounts for approximately 76% of total wages and salaries in the province. In absolute terms, the service sector provided $10.8 billion of GDP, almost 170,000 person years of employment and $5.5 billion of wages and salaries in 2007.

The public sector accounts for a significant portion of the overall service sector. The following chart outlines service sector employment by industry for 2007, grouped by public and private sector industries. For the purpose of analysis, the health care and social assistance, educational services and public administration industries are combined as a proxy for the public sector. It should be noted that some of the activity within these industries is private (e.g., private schools, dentists' offices), however, this is a relatively small portion. Conversely, there is public sector activity in some other industries, but again, it is only a small portion.

Within the private sector, the trade industry by far employs the greatest number of people, followed by the accommodation and food service industry. While these industries employ a large number of people, they generally offer a relatively low wage. About 50% of employees in the trade industry and over 70% of employees in the accommodation and food services industry earn less than $10 per hour.

The following pages contain statistics on the service sector industries, and a brief discussion of some of the factors which impact activity and growth in these industries.

Service Sector Employment by Industry, 2007

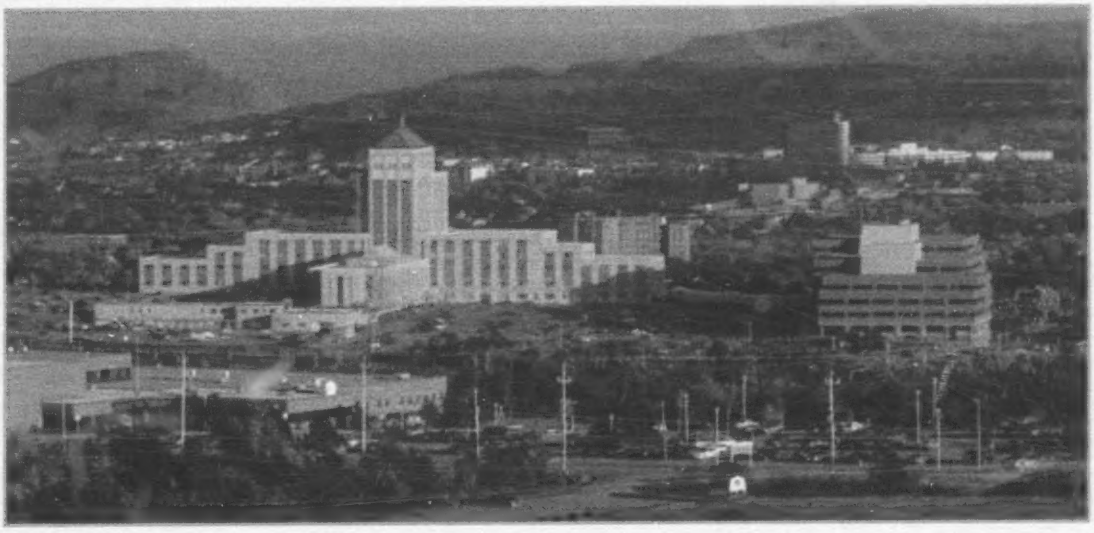


Source: Statistics Canada

Public Sector

Growth in public sector industries is dependent on a number of factors, including changes in the demographic and geographic distribution of the province. For example, a decline in the number of school age children would likely result in less demand for educational services. On the other hand, an increase in the number of seniors would likely result in an increase in demand for seniors' housing and health services. Other factors which impact activity in the public sector are the fiscal capacity of the province and priorities of current governments (e.g., environment). After several years of downsizing in the public sector, employment, particularly in public administration, has increased in the last couple of years.

	2007	2008 Year-to-Date Change*
Health Care and Social Assistance		
GDP (Millions)	$1,515	n.a.
Employment	31,500	3.6%
Average Hourly Wage Rate	$18.49	5.7%
Educational Services		
GDP (Millions)	$1,052	n.a.
Employment	17,100	-3.7%
Average Hourly Wage Rate	$24.27	10.1%
Public Administration		
GDP (Millions)	$1,460	n.a.
Employment	16,500	13.3%
Average Hourly Wage Rate	$22.43	6.9%



Trade

The trade industry is made up of both wholesale and retail trade, however, more people are employed in the retail sector. Retail employment accounted for 88.6% of total trade employment in 2007. The wholesale industry is dependent on the performance of the retail industry. If the retail sector is performing well, it is likely that the wholesale sector is also doing well. The trade industry is impacted by overall employment and income growth in the economy and is a good indicator of domestic economic performance. This industry has been buoyed this year by solid economic performance and high levels of consumer confidence. From January to September, retail sales were up 8.5% compared to the same period in 2007. On an annual basis, retail sales are expected to increase 8.1% this year to $7.1 billion. Despite sales growth in this industry, employment has declined over the last few years. This is likely the result of increased urbanization and the subsequent closure of small rural retail stores.

	2007	2008 Year-to-Date Change*
GDP (Millions)	$1,685	n.a.
Employment	36,800	-2.9%
Average Hourly Wage Rate	$12.24	6.8%

Transportation and Warehousing

The transportation and warehousing industry encompasses trucking, air transportation, marine freight and passenger carriers, taxis, couriers, warehousing services as well as services incidental to transportation such as air traffic control. This industry is key to the smooth operation of the economy. Portions of the transportation industry are dependent on the performance of the trade industry. If more goods are being bought and sold, more shipping, trucking and warehousing is required. Trucking is also dependent on the performance of some goods producing industries, such as fish processing. The shipping and storage aspects of the transportation industry have benefitted from the emergence of the oil industry over the past decade as oil shuttle tankers, supply vessels and the province's transshipment facility all fall within this industrial category. Some portions of the industry, such as air transportation, ferries, taxis and sightseeing tours are dependent on tourism activity. The transportation industry has benefitted from significant infrastructure investment over the past number of years.

	2007	2008 Year-to-Date Change*
GDP (Millions)	$615	n.a.
Employment	10,200	3.3%
Average Hourly Wage Rate	$18.23	3.7%

Finance, Insurance, Real Estate and Leasing

The finance, insurance, real estate and leasing industry includes establishments such as banks, credit unions, insurance companies, real estate companies, car rental and other rental companies. This industry provides the financial and brokerage services that keep the economy moving. The strength of the housing market in the last couple of years has positively impacted this industry as individuals buying and selling homes availed of real estate and banking services. As well, general business growth, with the associated requirement of banking services, and the strong growth in consumer spending have positively affected this industry.

	2007	2008 Year-to-Date Change*
GDP (Millions)	$2,306	n.a.
Employment	7,300	3.4%
Average Hourly Wage Rate	$18.59	6.5%

Professional, Scientific and Technical Services

The professional, scientific and technical services industry is comprised of a number of services where knowledge and skill are the major inputs. Individuals working in this industry include lawyers, architects, engineers, interior designers, advertisers, photographers and veterinarians. Generally, activity in this industry is tied to overall economic activity in the province. Some elements of this industry, particularly engineering and related services, are highly impacted by activity in the oil and mining industries. The professional, scientific and technical services industry has recorded significant growth over the past several years. Employment in this industry is at a record high and is about 35% higher than it was just 10 years ago.

	2007	2008 Year-to-Date Change*
GDP (Millions)	$508	n.a.
Employment	8,200	3.8%
Average Hourly Wage Rate	$20.87	8.9%

Management, Administrative and Other Support Services

The management, administrative and other support services industry covers services such as call centres, travel agencies, temporary help agencies, janitorial companies, waste collection companies and security services. This industry has recorded substantial growth over the past decade primarily due to the establishment and growth of call centres in the province. The call centre portion of this industry can also be impacted by economic conditions elsewhere in the world as the services provided by call centres are often exported.

	2007	2008 Year-to-Date Change*
GDP (Millions)	$249	n.a.
Employment	8,600	-4.5%
Average Hourly Wage Rate	$12.22	9.2%

Information, Culture and Recreation

The information, culture and recreation industry is comprised of services including radio and television broadcasters, cable and satellite telecommunications providers, newspaper publishers, general publishing companies, dance companies, sports stadiums and museums. Tourism activity impacts some aspects of this industry, particularly the culture and recreation components.

	2007	2008 Year-to-Date Change*
GDP (Millions)	$609	n.a.
Employment	8,300	2.5%
Average Hourly Wage Rate	$17.78	11.1%

Accommodation and Food Services

The accommodation and food services industry is comprised of hotels, motels, campgrounds, restaurants and bars. A large portion of activity in this sector is tied to tourism activity. In fact, it is estimated that almost 80% of the employment in the accommodations industry is driven by tourism demand. As well, general growth in employment and incomes in the province impact activity in this industry. While employment in this industry has declined so far this year, it has been steadily increasing over the last number of years.

	2007	2008 Year-to-Date Change*
GDP (Millions)	$347	n.a.
Employment	14,800	-9.6%
Average Hourly Wage Rate	$9.58	12.1%

Summary and Outlook

Expansion of the service sector is expected to continue in conjunction with overall growth in the economy. Despite the anticipated contraction in GDP next year, gains in disposable income and employment over the next several years should result in increased demand for consumer related services such as wholesale and retail trade, food service and transportation. Service industries tied to residential investment such as financial services and real estate brokerage should also experience continued strength due to income growth, low interest rates and further increases in the number of households. High levels of capital investment, driven primarily by resource developments in the mining and oil industries, are expected to have significant positive impacts on demand for services. For every $1 million spent on capital investment in the oil industry in the province, it is estimated that $230,000 of GDP and 3.5 person years of employment (direct and indirect) are created in the service sector.

* Year-to-date data is January to November
Source: Statistics Canada; Department of Finance

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10 *Terra Nova FPSO*	Dept. of Natural Resources
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The Economic Review 2008

Economics and Statistics Branch, Department of Finance

Newfoundland
Labrador